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Established in 1978 by

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October 1, 2008

Mary Nichols,

Chair, California Air Resources Board

P.O. Box 2815, Sacramento, CA 95812

RE: Early Development of a Cap-and-trade System that Closely Agrees with
Western Climate Initiative Market System

Dear Chairperson Nichols:

As you know, the Silicon Valley Leadership Group supported the California Global Warming Solutions Act of 2006, AB 32. We did so because we believe that reducing the state's greenhouse gas emissions and our dependence on imported fossil fuels presents an opportunity to transform our economy from one based on coal, oil, and gas to one that runs on clean renewable energy while also helping clean our air, protect our land and water and safeguard our health and welfare.

The Silicon Valley Leadership Group, founded in 1978 by David Packard of Hewlett-Packard, represents 280 of Silicon Valley's most respected and cutting-edge employers on issues, programs and campaigns that affect the economic health, quality of life and environmental sustainability of Silicon Valley.

Leadership Group members collectively provide nearly 250,000 local jobs, or one of every four private sector jobs in Silicon Valley.

We appreciate the scope and complexity of the challenge of implementing AB 32 and we applaud the deliberative, thorough and careful approach undertaken by the California Air Resources Board (ARB) in crafting the draft scoping plan. We believe we can achieve the steep reductions in global warming pollution set forth in the plan, but it will be no small task. Being the first state to enforce an economy-wide cap on greenhouse gases (GHGs) is a major undertaking, and all California residents and businesses have a role to play.

However, the Leadership Group believes that the heavy reliance in the draft Scoping Plan on regulatory action versus market mechanisms limits the potential stimulus for innovation and threatens to deliver lower GHG reduction for the dollars invested than might otherwise be achieved. A mix of regulatory and market tools will ultimately be required to make real progress against greenhouse gas emissions. Nevertheless, early development of a market-based cap-and-trade system that encourages innovation, spurs economic growth and the creation of large numbers of high-paying jobs, and controls compliance costs by allowing companies to trade, save, and borrow emission allowances can complement the regulatory initiatives outlined in the draft AB 32 Scoping Plan.

Enabling emissions trading would allow institutions (industries, public agencies, etc.) facing emission reduction imperatives but with relatively high costs for achieving these reductions to seek out and invest in reductions at other institutions that have identified lower costs for achieving that level of reduction. This transaction creates both an incentive for capital to flow to the opportunities for the highest reduction yield and a tangible market value for finding and delivering lower cost reductions. It thus provides the broad incentive to innovate and capture a market share of that cost of carbon reductions and assures that dollars are directed to those opportunities that yield the highest rate of GHG reduction.

We are concerned that there is not enough broad incentive to innovate under the approach outlined. In particular, while the regulations outlined will no doubt spur innovation, this would extend only into a few narrowly defined areas. If this approach were to dictate the path toward the long-term climate response, it would place upon ARB the incredible burden of identifying and regulating every opportunity for GHG reduction across the entire economy, and driving them to action either by regulatory mandates or artificial (and fiscally burdensome) incentives. We must find a way of tapping into the innovative nature of the private sector to drive technology development that will stimulate emissions reductions across the entire economy.

We do recognize that California is working closely with the Western Climate Initiative's (WCI), to help lower the cost of achieving emission reductions and mitigate the economic impact on consumers and businesses. In crafting its cap-and-trade program, the WCI Partners carefully assessed the designs and performance of programs such as the U.S. Environmental Protection Agency's Acid Rain program and the European Union's Emission Trading Scheme. The design recommendations take into account lessons learned from existing programs and reflect the diversity of the WCI Partner economies, including energy production and consumption patterns. By including features such as allowance banking and offsets, the WCI design recommendations support a strong and balanced cap-and-trade program that takes advantage of a broad set of economic opportunities to reduce GHGs. The Leadership Group believes that California will benefit if it works within the WCI cap-and-trade system, which makes greater use of market mechanisms to achieve the steep emission reductions required by AB 32.

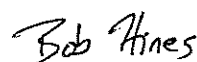
The intervention of market strategies must be timely, however. Pressing urgently and relentlessly on mandatory actions before implementing a market system raises serious questions. Mandates compelling major investments for reduction with little regard for their relative cost-effectiveness reduce the potential utility of any market strategy, and increase the overall economic drag associated with any given level of emission reduction.

California has the chance to take a leadership role in addressing climate change, positioning the state to aggressively reduce its GHG emissions and seize the innovation high ground as the demand for new clean technologies creates a multibillion-dollar global market. We urge the ARB to take advantage of this opportunity through early development of a market-based cap-and-trade system that works within the WCI cap-and-trade system. Please feel free to contact us at 408-501-7864 if you have any questions.

Sincerely,



Mike Mielke
Director, Environmental Programs & Policy



Bob Hines
Director, Energy Programs & Policy